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SUBJECT: A/S O'BRIEN MEETINGS ON IRAN SANCTIONS

Classified By: Economic Counselor Stuart Dwyer for reasons 1.4  
(b) and (d).

#### SUMMARY

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11. (S) Assistant Secretary of the Treasury Patrick O'Brien consulted March 15-16 with French officials to discuss implementation of UN Security Council Resolution 1737 on Iran sanctions, share information on individuals and entities involved in Iran's nuclear weapons program, learn the status of the EU designation process, and discuss next steps. END SUMMARY.

#### PARTICIPANTS

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12. (SBU) Treasury A/S for Terrorism Finance Patrick O'Brien led a delegation, which included Barbara Hammerle, Deputy Director of the Office of Foreign Assets Controls; Colleen Eddy, Policy Advisor, TF & Financial Crime; Michelle O'Lear, Supervisory Sanctions Investigator; and from the State Department's Bureau of International Security and Nonproliferation, Michelle New, for consultations with the French in Paris. Meetings on March 15 were held at the MFA with Nonproliferation Affairs DAS-equivalent Philippe Errera; Strategic Affairs DAS-equivalent Pierre Thenard; Louis Blin, Thenard's deputy; Alexandre Escorcia, desk officer for security policy; and from the French Treasury, Stephanie Talbot, deputy head of the office of international financial systems and summit preparation. Another meeting on March 16 featured Jean-Paul Redouin, Vice Governor of the Bank of France; Didier Bruneel, Director General of Operations; Jean-Pierre Michau, counselor; Frederic Peyret, Deputy Secretary General; Daniele Nouy, Secretary General of the Banking Commission; Eduardo Fernnandez-Bollo, Director of the Secretariat and Legal Issues of the Banking Commission; Talbot

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and econoff.

#### EU DESIGNATIONS - A LONG ROAD

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13. (S/NF) At the MFA meeting, Errera reported that elaboration of an EU list for Iran sanctions is expected to be a long process, not so much for the text but more for concerns about incorporating procedural guarantees. Errera said the UK had suggested a series of individuals, and France had done the same the day before, following a suggestion from the French Treasury to make things as easy as possible for the private sector. France has tried with its list to be as exhaustive as possible, and also to only use open-source material out of due process concerns (although elaboration of the names was largely guided by intel). [NOTE: Post understands that the EU experts group subsequently met in Brussels on March 21 and endorsed a

list of individuals to be designated autonomously by the EU. This list must then be submitted to Ministers for approval. END NOTE.]

¶4. (S/NF) Until the EU authority is in place, Talbot explained that the French Treasury for proliferation issues is currently using a national authority (a World War II era law on cross-border currency controls) to implement UNSCR 1737 and freeze certain proliferation-related transactions. Although the authority only applies to cross-border transactions, Talbot believes it is nonetheless effective as a stop-gap measure. Once the EU regulations are finalized, these regulations would supercede this old law and France would then apply the EU authority. She added that the big administrative problem is figuring out what to do with Bank Sepah's customers who have had nothing to do with Iranian proliferation activities. Thenard underscored the procedural issue concerning notification. (COMMENT: This is likely related to the December 2006 European Court of First Instance ruling which supported a challenge to the EU's implementation of UNSCR 1373 because of concerns over notification and due process issues. END COMMENT.) Errera asked if the United States is going to designate any other Iranian banks. O'Brien did not rule out the possibility, but noted that the U.S. will continue to monitor and act against any threats to the international financial system.

¶5. (C) Errera mentioned that France is also undertaking a thorough review of all of its WMD proliferation finance-related legislation and regulations, at the request of the Prime Minister. The idea is to strengthen powers and close gaps in authority, which France realized currently exist after various consultations with U.S. officials, notably in the area of proliferation finance. France is just at the definitional stage now, but hopes to complete its overhaul by the end of this year.

New UN Resolution on Iran  
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¶6. (S) On UN designations, Errera noted France had previously proposed additional names at the UN, such as the AIO, back in October, but had had to drop them from the annex of UNSC Resolution 1737 due to objections from Russia and China.

NEXT STEPS  
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¶7. (S) French officials expressed mixed opinions whether future resolutions would be needed, and if so, easier to obtain. Errera said he thinks difficult discussions are ahead to define financial controls. Responding to Hammerle's question, Errera said France prefers a strict interpretation of "owned or controlled," just like the UK, so that the GoF can move quickly.

Errera remarked that the P5 discussion on the annex for the impending resolution on Iran went much more smoothly than the discussions preceding the passage of UNSCR 1737, with Russia and China diligently noting the information and conveying the information back to capitals. For future list-based discussions, Errera suggested that the U.S., the UK, and France consider engaging on the expert-level with Russia and China, who are less comfortable with sanctions and rely heavily on information provided by the other P5 members to support designations. With respect to the EU, Talbot reported that at the last FATF meeting, she had sensed a great deal of hesitation among other European countries on implementation issues of measures involving proliferation finance. Noting that most European countries do not have an OFAC-equivalent, Talbot said that European banks are left to their own resources to implement financial measures and cannot currently rely on governments to assist.

¶8. (S) Errera questioned the delegation about possible U.S. Congressional action on Iran, noting that such legislation might undermine international resolve on Iran. O'Brien noted the separation of powers between Executive and Legislative branches, but acknowledged that the Congress is very interested in demonstrating its concern about Iran. Nevertheless, the

Administration is working to preserve its flexibility to act multilaterally.

Banque De France: "Ready to act on Iranian banks"

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¶9. (S/NF) At the French Central Bank, Deputy Governor Jean-Paul Redouin said the Bank is looking closely at Iranian banks operating in France, and as soon as it gets an order from the government it will be ready to move quickly against those banks. He added that the Banking Commission would be meeting that afternoon to consider next steps in preparation for the likely passage of the next UN resolution. He saw no systemic risks to the French banking sector overall if all Iranian banks were closed down in France. He reported that this year he has observed that business activity with Iran has been diminishing rapidly. The Banking Commission's Fernandez-Bollo said that UNSCR 1737 is already in effect in France, but European measures would take more time. He said the Commission wants to minimize spillover effects to innocent third parties, and since Iranian banks do operate in France, France will need to determine how to deal with this problem. Banking Commission Secretary General Nouy said France could appoint receivers to take over third-party accounts and reduce collateral damage.

¶10. (S) Fernandez-Bollo noted that there is a growing expectation in the French banking sector that the U.S. will take further action against other Iranian banks. A/S O'Brien pointed out that USG actions so far have been based on the terror-financing & proliferation-facilitating conduct of Banks Saderat and Sepah, respectively, and USG intent is to go forward on the basis of evidence of illicit conduct.

¶11. (S) O'Brien raised concerns about deceptive Iranian practices, like stripping information from message fields. Fernandez-Bollo concurred that deceptive omission is unacceptable to the Commission; he has suggested language in the ongoing review of French regulations to close that loophole and it has also been discussed in the FATF context. He added that a lack of information in message fields should trigger banks to take action, since they have to incorporate that element in their internal controls. Redouin closed by noting that he maintains close contact with the banks, who have been quite willing to explain their internal controls, and are being "super-cautious" with Iran.

¶12. (U) The Treasury delegation has cleared this message.

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